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A Concerned TEP Ratepayer

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Arizona Corporation Commission

Mr. Mike Gleason
Chairman
Arizona Corporation Commission
Commissioners Wing
1200 West Washington Street – 2nd Floor
Phoenix, Arizona 85007

Arizona Corporation Commission
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RE: TEP Rate Case Settlement – Docket No. E-01933A-07-0402
E-01933A-05-0650

Dear Chairman Gleason:

I am a concerned ratepayer of TEP that wishes to remain anonymous. I prefer you not enter my letter in the public record, but just wanted to comment on several concerns/questions regarding TEP's Rate Case Settlement in Docket No. E-01933A-07-0402. You may have already asked these questions yourself. However, as currently structured, I believe TEP's Settlement will result in rates that are not fair for ratepayers.

1. TEP will share with ratepayers 10% of wholesale trading activity margins, but retain 90%. With a fuel cost mechanism that asks ratepayers to bear all of the risk, I believe 100% of the margins should be given to ratepayers. Otherwise, why should ratepayers bear all of the risk?

2. I am concerned about allowing Springerville Unit #1 in rates at cost. Historically, TEP had to write-off the cost of the plant that was above the market value at the time. Why does this make sense now? With climate change at the forefront, a coal-fired generating unit today may actually have a lower market value than it did in the late 1980's.

3. TEP has purchased Springerville Unit #1 lease debt and equity. The UNS 2007 Annual Report indicates TEP had \$153 million on its balance sheet at the end of 2007. This investment provides TEP income as a leaseholder (\$28 million in proceeds from this lease investment in 2007 according to the Annual Report). Aren't ratepayers already paying for this lease in rates? Should this leaseholder income offset the lease expense passed on to ratepayers?

4. In TEP's Settlement, 50% of the gain on the sale of SO2 allowances is given to ratepayers, while TEP keeps 50%. I think ratepayers should get 100%.

5. The 2007 Annual Report states that for Springerville Unit #3, Tri-State reimburses TEP for 14% of the Springerville Common Facilities lease and 17% of the Springerville Coal Handling Facilities lease. Also, when Salt River Project brings Unit #4 online, they will reimburse TEP for these costs. Has this been taken into account so that TEP's ratepayers don't end up paying the full amount?

6. When TEP sold and leased back some of its power plants in the past, TEP took on a lot of additional debt and lost the money in bad non-utility business ventures. Why should ratepayers pay for TEP's mistakes? This Settlement still allows TEP a made-up capital structure and the $589 million of lease obligations on its balance sheet at 12/31/07 for Springerville Unit #1, Springerville Common Facilities, Springerville Coal Handling Facilities and Sundt Unit # 4 are not even treated as debt. Shouldn't TEP's capital structure reflect reality by now so customers can quit paying for TEP's past bad business decisions?

A utility should be allowed to earn a fair return, but this Settlement doesn't seem fair to ratepayers.

Sincerely,

A Concerned TEP Ratepayer

cc: Commissioner Kristin K. Mayes
Commissioner William Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce